



**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Financial Statements	
Balance Sheet as of June 30, 2000	3
Statement of Revenues, Expenses, and Changes in Accumulated Deficit for the Year Ended June 30, 2000	4
Statement of Cash Flows for the Year Ended June 30, 2000	5
Notes to the Financial Statements	7
Report on Compliance and Internal Control Required by Government Auditing Standards	17
Schedule of Findings	19

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

International Preparatory School
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44104

To the Board of Trustees:

We have audited the accompanying financial statements of the International Preparatory School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Preparatory School, Cuyahoga County, Ohio, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 3, the School has sustained a significant operating loss and accumulated deficit. The ultimate effect, if any, on the School's ability to continue to operate is not known as of November 30, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2001 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

November 30, 2001

This page intentionally left blank.

**INTERNATIONAL PREPARATORY SCHOOL
 CUYAHOGA COUNTY
 BALANCE SHEET
 AS OF JUNE 30, 2000**

ASSETS

CURRENT ASSETS:	
CASH	\$0
ACCOUNTS RECEIVABLE	<u>1,000</u>
TOTAL CURRENT ASSETS	1,000
NON-CURRENT ASSETS:	
FIXED ASSETS(NET OF ACCUMULATED DEPRECIATION)	<u>115,474</u>
TOTAL ASSETS	<u><u>\$ 116,474</u></u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES:	
ACCOUNTS PAYABLE	\$ 26,022
ACCRUED WAGES and BENEFITS	51,185
INTERGOVERNMENTAL PAYABLE	863,013
OVERDRAFT LIABILITY	<u>33,128</u>
TOTAL CURRENT LIABILITIES	973,348
EQUITY:	
ACCUMULATED DEFICIT	<u>(856,874)</u>
TOTAL LIABILITIES and FUND EQUITY	<u><u>\$ 116,474</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**INTERNATIONAL PREPARATORY SCHOOL
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN ACCUMULATED DEFICIT
 FOR THE YEAR ENDED JUNE 30, 2000**

OPERATING REVENUES:	
OHIO DEPARTMENT OF EDUCATION	\$ 1,065,335
OTHER OPERATING REVENUES	47,332
OTHER STATE FUNDING	<u>5,000</u>
TOTAL OPERATING REVENUES	<u>1,117,667</u>
OPERATING EXPENSES:	
SALARIES	798,590
FRINGE BENEFITS	159,129
PURCHASED SERVICES	402,304
LEASE PAYMENTS	262,374
BUILDING MAINTENANCE and REPAIR	262,306
MATERIALS and SUPPLIES	63,094
DEPRECIATION	7,716
OTHER OPERATING EXPENSES	<u>119,028</u>
TOTAL OPERATING EXPENSES	<u>2,074,541</u>
OPERATING LOSS	(956,874)
NON-OPERATING REVENUE:	
FEDERAL GRANTS	100,000
NET LOSS	<u>(856,874)</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>0</u>
ACCUMULATED DEFICIT AT END OF YEAR	<u><u>\$ (856,874)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**INTERNATIONAL PREPARATORY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from State of Ohio	\$1,831,239
Cash payments to suppliers for goods and services	(947,842)
Cash payments to employees for services and benefits	(907,539)
Other operating revenues	<u>47,332</u>
Net cash provided by operating activities	23,190

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Federal Grants Received	100,000
-------------------------	---------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:

Payments for Capital Acquisitions	<u>(123,190)</u>
Net change in cash	0
Cash at the Beginning of the Year	<u>0</u>
Cash at the End of the Year	<u><u>\$0</u></u>

CASH FLOWS FOR OPERATING ACTIVITIES:

Reconciliation of operating loss to Net Cash provided by Operating Activities:	
OPERATING LOSS	(\$956,874)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Depreciation	7,716
Changes in Assets and Liabilities:	
(Increase) in Accounts Receivable	(1,000)
Increase in Accounts Payable	26,022
Increase in Accrued Wages and Benefits	51,185
Increase in Payments Due to Other Governments	863,013
Increase in Overdraft Liability	<u>33,128</u>
Total Adjustments	<u>980,064</u>
Net cash provided by operating activities	<u><u>\$23,190</u></u>

The accompanying notes to the financial statements are an integral part of this statement

This page intentionally left blank.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The International Preparatory School (TIPS) is a state nonprofit corporation established July 1, 1999 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students from low income families in grades kindergarten through twelfth. TIPS which is part of the State's education program, is independent of any school district, and is nonsectarian in its programs, admission policies, employment practices, and all other operations. TIPS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

TIPS was approved for operation under a contract between the Ohio Cities Governing Authority and the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 1999 and shall terminate on June 30, 2004. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. TIPS is in the process of applying for tax exempt status with the Internal Revenue Service under section 501(c)(3) of the Internal Revenue Code. The Governing Board controls the School's one instructional/support facility which provides instructional services to 363 students. The Board which governs TIPS also governs the Dayton Urban Academy in Dayton, Ohio.

TIPS operates under the direction of a three-member Governing Board. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

TIPS has entered into a management contract with Oasis Development Corporation, Inc., to provide consulting services including securing a facility(ies) to operate its school, securing funding, providing consulting, advisory, and liaison services, EMIS monitoring, identifying and applying for grants, and any other projects which may be mutually agreed upon. In exchange for its services, Oasis Development Corporation, Inc. received a management fee of \$13,350 per month plus any additional support service expenses that were incurred. See Note 15 for further discussion of this management agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TIPS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Enterprise Accounting

The School uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the school.

D. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. TIPS maintain a capitalization threshold of five hundred dollars. TIPS does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Fixed assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Furniture and equipment	5

E. Intergovernmental Revenues

TIPS currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (“DPIA”) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, TIPS was awarded \$150,000 to offset start up costs, of which \$100,000 was received to date in fiscal year 2000. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

F. Compensated Absences

All TIPS personnel were paid for holiday absences according to the holiday schedule established in the contract.

For the 1999/2000 school year, vacations for TIPS personnel were concurrent with the vacation schedule established for students. The staff was not compensated.

TIPS employees are granted sick leave at a rate of 5 days per year after the first month of employment. These sick days may not be carried over. TIPS employees are also granted 3 days of compensated absences for personal reasons in addition to a compensated 3 day Bereavement Leave-of-Absence. These days may not be carried forward.

G. Cash and cash equivalents

All cash received by TIPS is maintained in demand deposit accounts.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

3. COMPLIANCE, ACCOUNTABILITY, AND FINANCIAL OUTLOOK

TIPS had an operating loss of \$956,874 and an accumulated deficit of \$856,874 as of June 30, 2000. This net operating loss and accumulated deficit were the result of start up costs and operating expenses incurred by the school. From June 30, 2000 to November 30, 2001 the School continued to experience losses and deficits. The School is seeking additional grants from both the State and Federal governments and making changes to its operations to alleviate losses and deficits. The School is also challenging the State Department of Education's student count which reduced funding. See note 6 for further discussion on this challenge.

4. DEPOSITS

On June 30, 2000 the carrying value of the Schools deposits totaled \$(33,799) and its bank balance was \$19,863, all of which was covered by federal depository insurance. At fiscal year end, the School had \$671 of petty cash on hand.

5. FIXED ASSETS

A summary of TIPS' fixed assets at June 30, 2000, follows:

Furniture and Equipment	\$ 123,190
	<hr/>
Less: accumulated depreciation	<u>(7,716)</u>
Net Fixed Assets	<u>\$ 115,474</u>

6. INTERGOVERNMENTAL PAYABLE

TIPS reported an Intergovernmental Payable in the amount of \$863,013 on its balance sheet. Of these payables \$102,114 represented monies due to governmental agencies for payroll withholdings and the Schools portion of retirement system contributions. The remaining amount of \$760,899 represents an amount payable by TIPS to the Ohio Department of Education based on the difference in actual full-time equivalents (FTE) enrollment as determined at the end of the year, compared to the October 1999 enrollment on which the school's monthly funding was based. The payable reflects that the school was funded at a higher estimated enrollment figure throughout the year than what the actual FTE enrollment figure was calculated to be at year end.

On November 12, 2001, TIPS sent a letter to the Ohio Department of Education rebutting the decision concerning the level of foundation funding during the fiscal year. The Ohio Department of Education, in a letter dated November 21, 2001 agreed, among other points, to review the decision concerning the overpayment made to TIPS. As of November 30, 2001, no decision had been made.

7. LEASES - OPERATING

TIPS leased its facilities from Haggins' Properties, LLC Under a three-year lease agreement that was to end on October 31, 2002. The lease agreement requires annual lease payments of \$472,500. Lease payments required during the year ended June 30, 2000 totaled \$262,374. See Note 16 for discussion of subsequent events pertaining to the lease of the school building.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

8. RISK MANAGEMENT

A. Property and Liability

TIPS is exposed to various risks of loss related to torts, theft of , damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For Fiscal Year 2000, TIPS contracted with Harcum-Hyre Insurance Agency, Inc. for coverage with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate.

B. Workers Compensation

TIPS pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

TIPS contributed to the School Employees Retirement System of Ohio ("SERS"), a cost sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. 4th St., Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salaries and the school is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder used to fund health care benefits; for the year ended June 30, 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2000 was \$8,443 of which \$905 was unpaid at year end and recorded as a liability.

B. State Teachers Retirement System

TIPS contributes to the State Teachers Retirement System of Ohio ("STRS"), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2000, plan members are required to contribute 9.3 percent of their annual covered salaries. TIPS was required to contribute 14 percent of covered payroll; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. TIPS contribution to STRS for the Fiscal Year Ended June 30, 2000, was \$38,766 of which \$6,261 was unpaid at year end and was recorded as a liability. Also, as of June 30, 2000 the school had unpaid payroll withholdings which had not been remitted to STRS in the amount of \$54,653. This amount was included as a liability on the balance sheet.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to Social Security.

10. Post Employment Benefits

TIPS provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. As of June 30, 2000, the board allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For TIPS, this amount equaled \$51,387 during fiscal 2000.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions used to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2000, the amount to fund health care benefits, including the surcharge, equaled \$13,205.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

11. OTHER EMPLOYEE BENEFITS

Insurance Benefits

TIPS provides life insurance to all employees through a private carrier. TIPS has also contracted with private carriers to provide employee medical and dental benefits. TIPS pays for the coverage.

12. CONTINGENCIES

A. Grants

TIPS received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of TIPS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2000.

B. Litigation

TIPS is party to certain legal proceedings. TIPS's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, on the financial condition of TIPS.

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State law. The effect of this suit, if any, on TIPS is not presently determinable.

13. PURCHASED SERVICES

Purchased Services included the following:

Management Services	\$223,609
Professional Development	78,970
Consultant Services	74,784
Legal Services	20,000
Substitute Personnel	<u>4,941</u>
Total Purchased Services	<u>\$402,304</u>

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

14. RELATED PARTY TRANSACTIONS

During the fiscal year TIPS purchased equipment and supplies and paid for consulting services to the Universal Islamic Brotherhood, an organization which shares a common board with the Oasis Development Corporation. The amount paid during the year was \$29,335.

One Board Member of the TIPS' Governing Authority is also a Board member of Oasis Development Corporation. TIPS contracts with Oasis Development Corporation for various consulting services. See Note 15 for discussion of the management agreement entered into between TIPS and the Oasis Development Corporation.

During the 1999/2000 school year, TIPS employed and or purchased services from several of the Governing Authorities' relatives. These individuals performed administrative services and were compensated based on an hourly rate for a total amount of \$30,063.

The Oasis Development Corporation, an Ohio corporation, established in part to provide educational programs created the Ohio Cities Governing Authority (the Governing Authority) and appointed three members to act as a Board of Trustees. The Governing Authority then established the International Preparatory School in Cleveland, Ohio and assumed the responsibilities of the school's Board of Trustees. Two of the three members appointed to the Governing Authority were also members of the Board of Directors of the Oasis Development Corporation. Oasis Development Corporation is a management company utilized to provide management consulting services to the International Preparatory School in Cleveland, Ohio and the Dayton Urban Academy in Dayton, Ohio. Also, one individual who sits on the Governing Authority Board and the Board of Directors of the Oasis Development Corporation acts as the Treasurer for both Schools. On June 16, 1999 the Governing Authority of the International Preparatory School entered into a Community School Contract with the Ohio Department of Education. For the services performed by the Oasis Development Corporation the International Preparatory School, based on the provisions of an agreements entered into between the school and the management company, was required to pay a monthly fee plus any additional support service expenses which may have been incurred by the management company on behalf of the School. See note 15 for a detailed discussion of the management contract.

15. MANAGEMENT CONSULTING CONTRACT

TIPS entered into a management contract with Oasis Development Corporation Inc. to provide consulting services. Under the contract, Oasis Development Corporation, Inc. is required to provide the following services:

1. Consulting and liaison services with the Ohio Department of Education and other governmental and quasi-governmental offices and agencies;
2. Advisory services regarding special education and special needs students, programs, processes, and reimbursements;
3. Other ongoing consultation with TIPS's management, as requested;

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

15. MANAGEMENT CONSULTING CONTRACT (Continued)

4. EMIS monitoring, consultation and guidance to TIPS staff on implementation and ongoing compliance with EMIS requirements;
5. Attendance at the TIPS's board of trustees meetings, as an invited observer;
6. Utilization of operations manual forms, (including teachers contracts, applications, enrollment and similar forms) and management procedures, as the same are from time to time developed by Oasis Development Corporation, Inc.
7. Consultive services on insurance needs, including introduction to Oasis Development Corporation Inc.'s insurance relationships;
8. Assistance in identifying and applying for grants; and
9. Such other management consultant services as are from time to time mutually agreed upon.

For these services, TIPS is required to pay the Oasis Development Corporation, Inc. a continuing fee in the amount of \$13,350 per month plus any additional support services expenses that were incurred. During the fiscal year 2000, TIPS paid continuing fees of \$160,200 and fees for support services totaling \$63,409 for a total fee of \$223,609.

16. SUBSEQUENT EVENTS

A. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

THE INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

16. SUBSEQUENT EVENTS (Continued)

A. STATE SCHOOL FUNDING DECISION (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 30, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, TIPS is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

B. STATUS OF BUILDING LEASE - OPERATING LEASE

In July 2000, The International Preparatory School was evicted from its school building due to the ruling of the court. In September 2000, a new lease agreement was entered into by TIPS and the owner of the school building. This lease agreement ended in June 2001.

In June 2001, the school building was part of the county's foreclosure auction. Enterprise International of Ohio, LLC purchased the property. The building was leased to the school for three years ending in June 2004. Da'ud Abdul Malik, Shabazz and Hasina Rane, Shabazz are the two principals of Enterprise International of Ohio, LLC. Da'ud Abdul Malik, Shabazz is the Chairman of the Board of Trustees of TIPS and Hasina Rane, Shabazz is the Treasurer of the Board of Trustees of TIPS and a board member of the Oasis Development Corporation, Inc.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

Lausche Bldg
615 W Superior Ave
Floor 12
Cleveland OH 44113 - 1801
Telephone 216-787-3665
800-626-2297
Facsimile 216-787-3361
www.auditor.state.oh.us

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

International Preparatory School
Cuyahoga County
10701 Shaker Boulevard
Cleveland, Ohio 44104

To the Board of Trustees

We have audited the financial statements of the International Preparatory School, Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 30, 2001 in which we noted the School has sustained a significant operating loss and accumulated deficit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated November 30, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-10818-001 through 2000-10818-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated November 30, 2001.

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 30, 2001

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2000-10818-001
-----------------------	-----------------------

Development and Implementation of Purchasing Cycle Controls

Procedures for processing non-payroll disbursements should include, but are not limited to:

- Prior written authorization by management for all purchases;
- Review and approve documentation verifying that goods or services were received;
- The comparison and approval of invoices, purchase orders, and checks prior to making payment;
- Review expenditure postings to verify accuracy;
- Implement procedures to maintain supporting documentation and;
- Preparation of financial statements, on a monthly basis, and submission of these financial statements to the Board of Trustees for review and approval.

The School does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained by management are not regularly documented (e.g. as part of the minutes). Formal purchase requisitions, purchase orders or tally sheets were not utilized on a regular basis and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment. Monthly financial statements which included all of the financial activity of the School were not prepared during the year.

We recommend the School utilize purchase requisitions and/or purchase orders to obtain proper authorization before committing school funds. School personnel should provide a written acknowledgment when goods and services are received. Management should compare invoices, purchase orders and, receiving acknowledgments, prior to authorizing payment. The School should also consider implementing a policy requiring Board approval of all expenditures over a certain dollar amount (for example \$1,000), Board approval of monthly financial statements, and the implementation of an accounting package which would provide the necessary financial information to allow the School to make informed financial decisions.

Finding Number	2000-10818-002
-----------------------	-----------------------

Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management to assess the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management to identify unexpected results and/or possible misstatements.

INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
June 30, 2000

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number

2000-10818-002

Developing and Implementing an Effective Monitoring Control System (Continued)

Some effective monitoring controls include:

- Regular review of monthly financial statements including budget and actual figures;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists, and;
- Review of monthly cash reconciliations by someone independent of their preparation.

Financial reports are not prepared or presented to the Board on a monthly basis. In addition, several incompatible job functions were being performed by the same employees. There was no evidence that monthly bank reconciliations were reviewed by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of school funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend management prepare monthly financial statements and submit them to the Board for their review at each regularly scheduled meeting. The Board should review these financial statements and approve them through the minute record. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliation.

Finding Number

2000-10818-003

Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Require hourly employees to complete and sign time sheets for review and approval by a supervisor; and
- Approval and tracking of sick time usage and balances for each employee.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
June 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number	2000-10818-003
-----------------------	-----------------------

Development and Implementation of Payroll Processing Procedures (Continued)

We could not locate any evidence of formal approval of employment contracts or the hourly rates paid to employees of the School. In addition, there was no documented supervisory review of employee time sheets to authenticate the accuracy and completeness of the time worked by employees, nor did the employees sign the time sheets to attest to the accuracy. The School did not effectively approve or track the usage of leave time.

We recommend the Board formally approve employment contracts or pay scales for all employees. In addition, all employees should prepare and sign their time sheets. The time sheets should then be reviewed and approved by their supervisor. Management should also review and certify final payroll for accuracy prior to distributing payroll checks. Finally, the school should also develop a system to track the accumulation and the usage of leave time.

Finding Number	2000-10818-004
-----------------------	-----------------------

Fixed Assets

The following control weaknesses over fixed assets exist:

- A fixed asset accounting system which maintains a complete fixed asset listing, by location, with tag or other identification numbers and other pertinent information has not been developed;
- The School has not developed and implemented procedures to assist in recording assets as additions when purchased and deletions when disposed of throughout the year, and;
- The Board has not approved a fixed asset policy.

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the School's assets may be misstated, we recommend:

- Management develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all fixed assets meeting the capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired or retired. This information should then be entered into the fixed asset accounting system, recording such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information, and;
- Management develop and implement procedures for performing periodic physical inventories of fixed assets. The current listing from the fixed assets accounting system should be compared to the items on hand and any discrepancies should be investigated.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

INTERNATIONAL PREPARATORY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2002**